Prices and incomes commission

Commission des prix et des revenus



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 METAL CONTAINER PRICES

Prices and Incomes Commission

John H. Young
Chairman

Paul Gérin-Lajoie
Vice-Chairman

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Commissioner

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Commissioner

George V. Haythorne
Commissioner

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## FOREWORD

The Prices and Incomes Commission was established on June 19, 1969, "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved".

Following numerous separate discussions with representatives of the Canadian business community, including the Canadian Chamber of Commerce, the Canadian Manufacturers' Association, the Retail Council of Canada and the Canadian Bankers' Association, the Commission decided to call a National Conference on Price Stability in order to obtain a consensus on a national policy to combat inflation. The conference, held in Ottawa on Feb. 9-10, was attended by senior officers of national business and farm associations, representatives of professional groups, leaders of the Canadian business community and officials of the federal and provincial governments. Those present indicated a willingness to exercise a meaningful degree of restraint in their pricing policies in 1970 and there was broad agreement that:

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(a) Business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970.

(b) More specifically, where higher prices are needed to cover higher costs, and market conditions make them feasible, business firms generally, if called upon to do so, would ensure that price increases were clearly less than the amount needed to cover the increases in costs at a normal volume of output and sales.

The complete list of agreed criteria is contained in the Closing Statement of the National Conference on Price Stability released on Feb. 10, 1970.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the federal government and all provincial governments endorsed the Commission's plan to call without delay upon business firms generally to follow the basic price restraint principle adopted by the National Conference on Price Stability. First Ministers urged all Canadians to co-operate actively in restraining price and income increases during 1970.

Provision was made at the National Conference on Price Stability for a price review procedure whereby the Prices and Incomes Commission would review price increases to determine whether they comply with the agreed criteria.

The Government of Canada and most provincial governments expressed the hope that government sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria as reported by the Commission.

# INTRODUCTION

During February and March, 1970, the two major metal can manufacturers in Canada, American Can of Canada Ltd. and Continental Can Co. of Canada Ltd., announced increases effective April 1, 1970, in prices of metal cans. This action followed announcements by the two Canadian producers of tin plate that prices of tin mill products would be raised effective April 1, 1970, by about five per cent.

The price increases by the metal can manufacturers amount to approximately four per cent. The companies stated that a large portion of this increase represented higher tin plate costs. In addition they said that the price adjustment recovered only part of other cost increases.

The Prices and Incomes Commission undertook this review to determine whether the increases comply with the agreed criteria. Detailed information on costs, prices and profit performance has been obtained from each of the two major producers of metal cans. Data pertaining only to the manufacture and marketing of metal containers is included. This data was provided

on a confidential basis by the two companies which, being wholly owned by their parent companies, are not required to make their annual reports public.

The criteria stipulated that 1969 would, in general, be used as the base year when considering changes in costs and revenues. The closing statement of the conference provides, however, that "in cases where this would be clearly inappropriate, a suitable alternative base period would be selected". In the case of American Can, 1969 is not an appropriate base year because costs and profits were seriously distorted by substantial start-up costs associated with three new plants. Accordingly, 1968 has been used as the base year for this company.

For Continental Can, 1969 has been used as the base year.

## METAL CONTAINER PRICES

### Metal Can Manufacturers

The metal can industry in Canada is dominated by two companies, American Can of Canada Ltd. and Continental Can Co. of Canada Ltd. They are primarily

engaged in the manufacture and distribution of metal cans for use by canners of fruit, vegetables, beverages and other food and non-food products.

Although there are only two major companies involved, there is lively inter-industry competition from manufacturers of glass, plastic and paper containers. In addition, the bargaining power of the larger canners is enhanced because, in many cases, the quantities of cans used by each are sufficiently great that they could economically manufacture their own requirements. Imports and exports are not significant and reflect, principally, trade in specialty containers only and not in general line metal cans.

Both of the major companies in the industry are owned and controlled by United States corporations with world-wide interests and they participate in technical development and research undertaken by these parent corporations.

In addition to the two major manufacturers, there are several smaller companies in Canada which produce aerosol and other cans.

The principal product of American Can of Canada Ltd. is metal containers, but the company also produces fibre cans, paper cartons, cups and plates and operates woodlands and a pulp mill. It operates 12 container plants located from Dartmouth, N.S., to Vancouver, B.C.

Continental Can Co. of Canada Ltd. operates seven plants, located from Montreal to Vancouver, producing a variety of cans and drums. Its Paper Division has 13 plants producing a variety of packaging and other paper products. It recently acquired two automotive parts manufacturing companies located in southwestern Ontario.

## Markets

The largest users of metal cans are the fruit and vegetable canners who vary in size from small operators to the giant nationally-known companies. In selling to food processors the can makers have to compete, in many instances, with alternative methods of preservation such as freezing, bottling and dehydrating.

The brewers and soft drink manufacturers are also large users of metal cans, with alternative packaging being available in the form of returnable bottles and one-trip bottles.

In addition, cans are used for packaging a variety of other food and non-food products. These cans are offered in a wide range of shapes and sizes.

The following table shows the trend in the annual value of shipments of metal cans, including cans produced by canning companies for their own use:

| | Value $ (000's) | Percentage increase from preceding year |
|---|---|---|
| 1960 | $108,520 | |
| 1961 | 109,578 | 1.0% |
| 1962 | 122,680 | 12.0% |
| 1963 | 123,734 | 0.9% |
| 1964 | 130,565 | 5.5% |
| 1965 | 144,503 | 10.7% |
| 1966 | 148,178 | 2.5% |
| 1967 | 168,183 | 13.5% |
| 1968 | 194,057 | 15.4% |

Metal can plants tend to be located near their intended markets. Cans are of low value in relation to weight and size thus making shipping uneconomical over long distances.

The market for containers is expected to be affected in the future by polution control requirements. As an example, the Government of British Columbia has recently introduced anti-litter legislation which requires, with certain exceptions, that no person shall sell beer, ale, carbonated beverages or drinks in a glass, plastic or metal container for consumption or use off the premises unless there is an undertaking to refund not less than two cents on return of the container.

## Prices

Sales of metal cans are generally made under "evergreen" contracts which remain in effect from year to year unless terminated by either party, within the terms of the contract, at the end of a calendar year. Material specifications for each can are normally published with prices. Prices are quoted per 1,000 containers, and the quantity of metal plate required for each part of the can is known. Sales contracts require the manufacturer to reflect price changes for

plate or any coating differential in the can price, provided that no price increase shall be made between May 1 and Oct. 1. Changes in prices for other reasons require 30 days notice and similarly cannot be made between May 1 and Oct. 1. Prices are normally quoted f.o.b. seller's factory or, to meet competition, the seller will equalize freight with the nearest factory of a competitor. Quantity discounts are offered based on the net value of deliveries in a calendar year.

Metal can prices were increased on April 1, 1970, by both of the major manufacturers. This price increase averaged approximately four per cent with individual price changes ranging from some small reductions to increases of five per cent. The previous price increase which averaged three per cent was effective one year earlier, on April 1, 1969. The higher price increase in 1970 compared to 1969 is largely due to a higher tin plate price adjustment this year.

## Manufacturing Costs

There is a significant variation in the degree of automation utilized in the manufacture of metal cans, largely related to the volume of output of the

individual can types. Where large volumes are required, highly automated machines produce cans at rates of 500 to 600 per minute. In some low-volume product lines, manually operated body forming and sealing equipment is utilized, resulting in output rates as low as about 10 cans per minute. Although production methods vary with size, shape and volume the essential steps in producing the most common type of can include printing on sheets of tin plate; cutting of blanks for bodies; notching; rolling; hooking of edges to form a cylinder; soldering of edges; flanging of ends of the cylinder; sealing of stamped tops or bottoms to one end of the can; and testing of the partly assembled can.

Historical financial and cost records and forecasts for 1970 were obtained from each of the two major companies. Our analysis indicated that in both cases the 1970 forecasts were realistic and included anticipated volume increases and efficiency gains.

The major item of cost in a can is the direct cost of plate required, which can be identified specifically. This cost represents approximately 43 per cent of the net selling price. The portion of a price increase attributable to plate cost changes is usually known by the purchaser of the can.

Employment costs are a significant factor in the cost structure of each of the two companies, accounting for approximately 29 per cent of net sales dollars. Rate increases and additional fringe benefit costs will add substantially to costs in 1970.

The following table compares the average hourly labor and fringe benefit costs of the two companies for 1968, 1969 and 1970:

| (Dollars per hour) | 1968 | 1969 | 1970 | 1970 over 1969 amt. | 1970 over 1969 % |
|---|---|---|---|---|---|
| Pay for time worked | $3.55 | $3.74 | $3.85 | $.11 | 2.9% |
| Fringe benefit costs | .96 | 1.02 | 1.18 | .16 | 15.7% |
| TOTAL | $4.51 | $4.76 | $5.03 | $.27 | 5.7% |

Earnings of salaried employees of the two companies have increased at approximately the same rates.

A number of other cost increases will be reflected in 1970 in items such as property taxes, freight and transportation, and manufacturing and repair materials. Anticipated increases in productivity and volume in 1970, however, will offset some of the increase in overhead costs per sales dollar.

## CONCLUSIONS

The Commission has found that the price increases effected by both companies meet the criteria agreed to at the National Conference on Price Stability. In both cases revenue increases are clearly less than cost increases and lower ratios of profits to sales are expected in 1970 than in the base year.